

MEMORANDUM

To: EEU Service List

From: Susan M. Hudson, Clerk of the Board

Re: 20-Year energy efficiency forecast assumptions

Date: May 29, 2008

Pursuant to paragraph 61 of the Docket 7081 Memorandum of Understanding, the Energy Efficiency Utility ("EEU") is required to prepare a 20-year forecast of energy efficiency savings expected to be achieved from the EEU's system-wide programs. Paragraph 61 also requires that the estimates be based on the expected budget levels and service types of the system-wide programs at the time of estimate.

On March 12, 2008, Public Service Board ("Board") staff requested comments on the assumptions that the EEU should use in developing the forecast. The majority of the parties recommended that the forecast should assume an annual budget level equivalent to the 2008 budget level, with some of these parties recommending that the annual budget be adjusted for inflation. Only two parties recommended that the forecast assume significant increases in the EEU budget. With respect to geographic targeting of efficiency programs, several parties recommended that the EEU's geographic targeting efforts should continue, with one party recommending that the forecast not assume any geographic targeting, and one party recommending that the forecast assume that the current percentage of the budget utilized for geographic targeting remain unconstrained with respect to geographic and class equity considerations.

The Board is currently conducting a process to set the actual budget for the 2009 - 2011 period; however, VEIC needs to make assumptions regarding the budget at this time, in order to prepare the 20-year forecast in a timely manner. Accordingly, the Board has concluded that the EEU should assume, for purposes of developing the forecast, that the EEU budget starts with \$30.75 million in 2008 and is escalated by inflation. The Board emphasizes that this conclusion involves only the budget assumption for the 20-year forecast; the Board cautions that the budget for the next three years will be based on the information available at that time and the actual budget determination could change

significantly from the assumptions provided here. Given that the forecast covers a twenty-year time period, and therefore contains significant uncertainty, it is reasonable to extrapolate the forecast from the existing budget level.

In its September 25, 2006, Order, the Board determined that the budget in excess of the previous statutory cap of \$17.5 million would not be constrained by the geographic and customer class equity considerations that had previously bound the entire EEU budget. With respect to the question of whether geographic targeting of energy efficiency programs should continue, it is not possible at this time to determine the level of geographic targeting that would be required in twenty years' time. However, the Board finds that it is reasonable to assume, for the purposes of the forecast, that the same percentage of the budget that is not currently constrained by geographic and customer class equity concerns would remain unconstrained. The Board believes that this information should be sufficient for purposes of developing the 20-year forecast.